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SUBJECT: Scen setter for Secretary Clinton's March 4-5 Visit to Costa Rica

¶1. (SBU) Summary: Embassy San Jose warmly welcomes your visit to Costa Rica for the Pathways to Prosperity Ministerial meeting. We encourage you to use your visit here to reinforce constructive efforts by Costa Ricans on climate change and energy security. President Oscar Arias has set a good course on these issues, and President-elect Laura Chinchilla has promised to give them high priority in her administration. The United States also collaborates successfully with Costa Rica on citizen security and job-producing trade and investment. Your visit provides an opportunity to underscore the United States government's desire to continue working in partnership with Costa Rica to make further progress in these areas, and our appreciation and expectation of Costa Rica's commitment - in money and other resources - to initiatives of common interest to our countries. End Summary.

With Chinchilla, Costa Ricans Choose Continuity

¶2. (SBU) Laura Chinchilla handily won Costa Rica's February 7 presidential election with just under 47 percent of the vote, beating by more than 20 points her nearest rivals. In electing Chinchilla, Costa Ricans voted for continuity and consolidation of President Arias' agenda. Arias has been criticized for setting lofty goals without putting in place all of the mechanics to reach them. Politically astute, Chinchilla is carefully straddling the Arias era with a forward-thinking agenda and an ability to put in place the building blocks necessary to achieve shared goals.

¶3. (U) Chinchilla's major policy goals of promoting job creation, citizen security, energy security, and sound environmental stewardship are consistent with U.S. foreign policy interests in Costa Rica and Central America. Chinchilla knows that, to create jobs, her administration must reduce the hyper-legalistic bureaucracy that impedes investment. She has committed to a clean energy agenda and to keeping Costa Rica on its path toward carbon neutrality by 2021. She told the embassy during the campaign that she would seek U.S. assistance in her efforts to strengthen citizen security, particularly in improving the recruitment and training of uniformed police officers.

¶4. (U) Chinchilla brings to the office experience in citizen security issues and a significant career in public service, including stints as Legislative Assemblywoman, Minister of Public Security, and President Oscar Arias' former Justice Minister and Vice President (she resigned upon declaring herself a candidate for the presidency). She has strong personal ties to the U.S., having earned a Masters in Public Policy at Georgetown on a USAID scholarship and worked on judicial reform in Latin America as a USAID contractor in the late 1990s. She will be Costa Rica's first

female president.

## Arias' legacy

15. (SBU) President Arias considers Chinchilla's decisive victory to be the Costa Rican people's endorsement of his - at times controversial - agenda. One of his greatest legacies is the U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR). Ratified in a national referendum, it opened Costa Rica's economy to free trade and ended state monopolies in key sectors. (Costa Rica's legislature still must pass the final bill required to bring its legislation into compliance with CAFTA-DR, and the government must also reach agreement with USTR on related to intellectual property rights.) On the international front, Arias feels disappointed by the international community's failure to get Micheletti to comply with the Tegucigalpa-San Jose Accords. He remains critical of his Latin American counterparts for continuing to exclude Honduras from the fold (while at times including Cuba). At home, the Arias administration also has supported social welfare programs, including a successful program of cash payments to poor mothers who keep their children in secondary school. Arias' government almost doubled the public security budget of the past two years; however, his administration's statements suggesting that crime is not a serious problem earned the ire of citizens deeply affected by crime.

## U.S. PRIORITIES IN COSTA RICA

### Our Work Advances Economic Growth in the U.S. and Costa Rica

16. (U) A key area of common interest is job creation. U.S. exports to Costa Rica create jobs at home, as do Costa Rican purchases of U.S. goods. The Foreign Commercial Service actively promotes both of these activities by facilitating trade missions of U.S. businesses to Costa Rica and vice versa. In 2007, the most recent year for which statistics are available, 8,084 U.S. exporters - of which 83 percent were small and medium sized enterprises - shipped products valued at \$4.1 billion to Costa Rica. In the past year, U.S. businesses exported \$4.7 billion worth of goods and service to Costa Rica, while imports from Costa Rica totaled \$5.6 billion. The U.S. Food and Drug Administration (FDA) is working to get Costa Rican authorities to recognize FDA's approvals of medical devices, so Costa Ricans can purchase U.S.-made devices without having to obtain additional approvals here.

18. (U) We also help create jobs at home through programs that help reduce costs for U.S. exporters. For example, since entry into force of CAFTA-DR, USAID has conducted numerous training sessions for working level officials on matters such as rules of origin. This training has helped the officials improve the speed and efficiency of customs processing.

19. (SBU) We are currently encouraging the Costa Rican government to purchase U.S.-made container scanners for placement at its land and sea points of entry. This equipment would increase vastly the speed and thoroughness of Costa Rica's checks of cargo entering the country, a boon to business and security. The sale of the equipment itself would be a multi-million dollar deal for a U.S. company. Meanwhile, in a joint project, U.S. Department of Treasury and Chilean government experts are advising the Costa Rican government on financing infrastructure projects through public-private partnerships, thereby helping develop \$3 billion in concessions.

¶10. (SBU) Reducing cumbersome bureaucracy is a priority for U.S. investors, who account for 60% of Costa Rica's foreign direct investment. The World Bank's 2009 "Doing Business" index ranks Costa Rica 117th out of 181 countries overall, and 24th out of 31 in the region. Costa Rica earns particularly low ranks in the areas of ease of starting a business and protecting investors.

#### Advancing our Shared Agenda on Climate Change and Energy Security

¶11. (U) Climate change and clean energy are other areas where the actions of Costa Rica and its neighbors impact U.S. citizens. President Oscar Arias committed Costa Rica to becoming Carbon Neutral by 2021. This has sparked a new generation of activists and entrepreneurs in Costa Rica to push for changes aimed at enhancing Costa Rica's investment climate for clean energy. If Costa Rica can achieve such a dramatic reduction of emissions, it will have a small impact in addressing the global problem and a large impact in setting an example for other countries. In addition, Costa Rica's investment in clean energy almost certainly will create "green" jobs both in Costa Rica and the U.S.

¶12. (SBU) So far the Arias administration has failed to turn much of its rhetoric on the environment into action, and President-elect Chinchilla recognizes that it falls to her administration to implement concrete measures to achieve such goals. An early challenge will be the passage through the Legislative Assembly of a long-overdue energy bill, which her administration could use to reform the energy sector to effectively promote clean energy.

¶13. (SBU) Despite having perhaps the world's greatest renewable energy potential, Latin America and the Caribbean capture less than 3% of global investments in clean energy. Costa Rica has done well on energy security to date, but it will face serious challenges in the next ten years unless it increases efficiency and improves the market incentives for renewable energy. The Arias administration asked to join Petrocaribe in 2008, in a move it defended at the time as "economic pragmatism" given high fuel prices and Venezuela's role as Costa Rica's major supplier (87 percent) of crude oil. Given the lower oil and energy costs since, and some Costa Rican concerns about the potential "political price" associated with joining, this initiative has languished.

¶14. (U) The State Department's regional environmental hub has proposed projects that will demonstrate ways to cut barriers to investments in clean energy and show the advantages of instituting "smart grids" now. Funding may be available this year to implement pilot projects that demonstrate these advantages and to engage regulators and legislators in expert exchanges. Also the U.S. Department of Energy is funding the establishment of an Energy Efficiency Center here in Costa Rica that will serve as a knowledge platform for other countries in the region. The U.S. government currently supports programs to assist Costa Rica in addressing other environmental issues, for example by providing technical expertise to a laboratory that monitors water quality and clean production training for the private sector through the environmental component of CAFTA-DR.

¶15. (SBU) In stark contrast to some other Latin American countries, Costa Rica was a constructive participant in the climate change negotiations at Copenhagen, and it is one of the few from the region that put forward commitments in associating itself with the Copenhagen Accord. In contrast to President Arias, President-elect Chinchilla until now has focused primarily on domestic issues. We intend to emphasize to her the importance of continuing Costa Rica's leadership on climate change, and we

encourage you to deliver the same message.

## Strengthening Citizen Security Helps Costa Rica, the Region, and the U.S.

¶16. (U) Due in large part to a rise in drug trafficking through Costa Rica, crime has increased dramatically here in recent years. Although there was a small drop in some crime statistics from 2008 to 2009, in one out of every four homes there is at least one person who has been a victim of crime in the last four months.

¶17. (SBU) Chinchilla has promised to add an additional \$100 million per year for police funding. (She hopes to obtain this funding through a two percent tax on casinos.) These resources are definitely needed, as the police here generally are underpaid, understaffed, and poorly trained and equipped. In comparison with the rest of the region, corruption in Costa Rica's security forces is relatively low. That said, the uniformed police in particular continues to struggle with criminal elements in its ranks.

¶18. (U) Efforts to stem crime in Costa Rica benefit not only more than 50,000 Americans living here and close to one million U.S. citizens who visit the country each year but also those who live in the U.S. The U.S. government estimates that approximately 60-75 percent of the drug flow from South America to Mexico and the United States runs through Costa Rican territory or national waters. Costa Rica seized nearly 20.6 metric tons of cocaine in 2009, keeping it from reaching the streets in the United States. (U.S.-Costa Rican joint narcotics operations made possible by a bilateral maritime agreement contributed to this result.)

¶19. (U) The U.S. will be able to assist with police professionalization thanks to resources provided through the Merida Initiative. U.S. government agencies are helping strengthen citizen security in this region in a number of other ways.

\* In February, Costa Rican police discovered drugs in a hidden compartment using equipment and training provided by the U.S. Drug Enforcement Agency in January.

\* U.S. Customs and Border Protection officials just completed assessments of Costa Rica's land borders, which are key choke points for contraband heading north or south. They have conducted similar assessments throughout the region.

\* U.S. Treasury officials are looking at the possibility of helping the Government of Costa Rica design a means of paying for the upgrades required at the most significant border crossing on the Inter-American Highway.

\* This year a U.S. Treasury official based at the Costa Rican Finance Ministry will advise the host government on ways to improve enforcement of laws against money laundering and other financial crimes.

\* U.S. Southern Command is funding a communications node that will enable Costa Rican maritime and land law enforcement officials to share information in real time with each other and with U.S. Joint Inter-Agency Task Force - South, which monitors movements of suspect vessels throughout the region.

\* The State Department is providing radios and bullet-proof vests to the poorly equipped uniformed police.

\* Two advanced interceptor boats will be donated this summer.

By helping Costa Rica and the region in these ways, we help protect our own borders from transnational crime.

BACKGROUND ON COSTA RICA'S ECONOMY

¶20. (U) The impact of the economic crisis on Costa Rica was shorter and less severe than in many other countries. Costa Rica posted real GDP growth of +2.6 per in 2008 which was well below the +8.8 percent rate of 2007. First quarter 2009 was the low point of the global crisis for Costa Rica when economic activity posted a decrease of -4.5 percent. However, by fourth quarter 2009, the economy grew by +1.9 percent. For all of 2009, the economy contracted by -1.3 percent. The telecom, services and insurance sectors, together with parts of the manufacturing sector, are expected to lead the recovery into 2010. The anticipated telecom and insurance sectors activity is directly related to the entry into force of CAFTA-DR, which opened both sectors to competition.

¶21. (U) Inflation reached 13.9 percent at the end of 2008, but dropped during 2009 to 4.0 percent by end-year due to the Central Bank's tight monetary policy, sagging commodity prices, and lower consumer demand. The Central Bank targets inflation within the range of 4 to 6 percent for 2010 with private forecasters pegging the rate somewhat higher at 7 percent.

¶22. (U) Toward the end of 2009, forecasters estimated the unemployment rate at just less than 7 percent, a significant increase from the 2008 end-year figure of 4.9 percent. Exports continue to lead growth, with traditional agricultural products (coffee, pineapple, sugar cane and bananas) doing fairly well. Value added goods and services are also doing well, including microchips from Intel (which generates 20 percent of Costa Rica's export earnings alone). Intel's Costa Rican manufacturing site benefitted from Intel's 2009 decision to shutter three plants in East Asia. Costa Rica exports worldwide tallied \$8.2 billion in ¶2008.

¶23. (U) U.S. business presence includes many blue chip companies that have chosen Costa Rica as a regional back-office operations site. Sykes, Western Union, Proctor and Gamble, and Hewlett-Packard are several of the key firms that operate human resources, accounting, finance, and technical support services in Costa Rica. The medical device sector has grown steadily over the past twenty years as Baxter (initially), Hospira, and Boston Scientific all expanded operations in Costa Rica.  
ANDREW